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TAGS: EFIN ECON PGOV ELAB FR
SUBJECT: FRENCH PUBLIC DEBT RATIO DROPS IN 2006

REF: 06 Paris 7815

¶1. SUMMARY: French public debt decreased to 63.9 percent of GDP, based on Maastricht definitions used to report budget data to the European Commission. A reduction in the central government deficit, sales of shares in state-owned companies, and better management of government short-term securities contributed to that result. END SUMMARY.

Public Debt/GDP Ratio Decreases 2.3 Percent in 2006

¶2. On March 30, the French National Statistical Agency, INSEE, released preliminary estimates of the general government budget deficit (including central government, social security system and local authorities) and the overall government public debt. Data are based on Maastricht definitions, used by the government to report France's budget deficit and public debt figures to the European Commission. France's GDP/debt ratio dropped from 66.2 percent of GDP in 2005 to 63.9 percent in 2006. In absolute terms, French public debt (1,142 billion euros or 1,518.9 USD) increased only 0.5 percent compared with a 6.5 percent increase in 2005. INSEE may slightly revise estimates of debt as a percent of GDP on May 15, when it releases preliminary 2006 GDP data.

Finance Minister Says GOF Strategy Successful

¶3. The 2.3 percent decrease in the public debt/GDP ratio is the largest in the last thirty years. Breton described the performance as "historic" and "in line with his May 19, 2006 commitment to reduce the public debt/GDP ratio by 2 percent in 2006" (reftel). He told LCI TV that, "by pursuing the same strategy, the public debt ratio should fall to below 60 percent before 2010, and the government could have a budget surplus afterward."

GoF Claims Better Spending Control

¶4. The improvement in the public debt/GDP ratio was partly due to a decrease in the central government (CG) deficit. The deficit in 2006 fell to 47.5 billion euros (63.0 billion USD) from 52.4 billion euros (69.7 billion USD) in 2005. French CG negotiable debt decreased, down to 876.6 billion euros in 2006 from 877.4 billion euros in 2005. The Finance Ministry's budget office attributed the performance to a zero percent growth limit it imposed on CG expenditures. Additional tax receipts (10.2 billion euros or 13.6 billion USD) were used to reduce the CG budget deficit as planned by the government. At the end of President Chirac's mandate, France will have posted a decrease in the overall budget deficit to 2.5 percent of GDP (versus his initial objective of 2.6 percent). This is a significant improvement compared with the 2003 overall budget deficit, which had crept up to 4.1 percent of GDP.

Sales of State-owned Assets Helped

¶5. The government used proceeds from privatization of highways (13 billion euros or 17 billion USD) and the sale of GOF shares in Alstom and Aeroport de Paris to repurchase 17.1 billion euros (22.7 billion USD) in short and medium term public debt. The 2006 government debt issue program was reduced to 104.1 billion euros (138.4 billion USD) in 2006 from 119.5 billion euros (158.9 billion USD) in 2005.

GOF Claims Better Management of Short-term Securities
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¶6. The GoF modified its management of the central government's short-term securities. The new management used refined forecasts to reduce the outstanding amount of Treasury bills to 29.1 billion euros (38.7 billion USD) in 2006. A very-short-term Treasury bill was issued for the first time by auction on September 4, 2006, to anticipate September tax receipts. The government instituted a system across ministries for the exchange of information to limit waste of money. The Public Debt Fund ("Caisse de la Dette Publique") used occasional surpluses, before repurchasing Treasury bills and bonds, to temporarily fund the social security general regime by subscribing 4.96 billion euros (6.6 billion USD) in bills issued by the Social Security Fund (ACOSS).

Comment

¶7. (SBU) Despite the good news, France has yet to make serious progress on sustainable expenditure restraint, the key to real fiscal adjustment. The main candidates have paid lip service to the need for continued improvement of public finances, but campaign promises may push politically difficult spending cuts further into the future.

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